

THE LEONARD LETTER

June 13, 2005

QUOTE OF THE WEEK

"I cannot undertake to lay my finger on that article of the Constitution which granted a right to Congress of expending, on the objects of benevolence, the money of their constituents." --- James Madison (1751-1836), Father of the Constitution and 4th President Source: 1792, in disapproval of Congress appropriating \$15,000 to assist some French refugees

UNDER THE DOME

State Pencils

A quote from a school teacher at one of those anti-Schwarzenegger rallies reflects my major frustration over this whole school funding debate. The reporter quoted this teacher as saying that the state only gives her one pencil per month for each of her students. Like most other teachers, she digs into her own pocket to buy pencils when a student needs another pencil before the month is up.

The state does not buy pencils. Nor with all of its volumes of educational regulations does it set a quota for pencil usage in California's schools. The teacher and the reporter both reflect the unquestioning myths about state support of schools. The state sends money, not pencils, to school districts. The amount of money is roughly equal to the average public school support in every other state in the nation. Individual school districts decide how to spend the money. With all of these tax dollars going to schools, it is shocking and sad how little of it actually ever gets inside a classroom.

Some fiscal administrator at this teacher's district office decided that her students needed only one pencil per month. The money that could have been spent on more pencils was spent elsewhere. The administrators of school districts, guided by the school board, decide where this money goes. If merely 5% of the school budgets were shifted to hiring more teachers, buying more textbooks, and, yes, buying more pencils, the new amounts for these purposes would be in the billions. I sure would like to see some district try this.

Politics: The Oldest Survivor Show

The last week has been filled with hour-by-hour revelations as candidates and potential candidates maneuvered for the maybe soon-to-be-vacated congressional seat of Chris Cox of California. Cox is a tremendous leader and long-time California congressman from an Orange County coastal seat who has been selected by the President to run the

SEC. Everybody interested in the seat is interested in being declared the front runner. Such scrambling always raises questions, and I am asked regularly why the Republican party does not recruit more women candidates, recruit more minority candidates, recruit more prominent local leader candidates, intervene to end divisive primaries, and all sorts of other such questions. (Usually the person asking me these questions is a candidate who wants the party to make him the designated candidate.)

My answer is that there is no Republican Party. There is no smoke filled room of movers and shakers who guarantee an outcome with the flick of their fingers. Primaries are the most democratic form of politics. Candidates and their supporters work to convince a large circle of opinion makers and a larger circle of voters that they are worth supporting. Many times, a candidate with all the right credentials lost the primary to a candidate who better echoed the issues of concern to voters.

The special election for the Cox seat has not even been set, and with him still facing a partisan confirmation process in the U.S. Senate, the election may be a ways off. Between now and then the candidates – a.k.a. survivors --- will be dropping in and out as they honestly assess their own abilities to connect with the voters. It is even possible that the strongest candidate will not survive if a group of weaker candidates join together to divide up the strongest candidate's potential support. I predict that the list of candidates who actually file to run will be different than the list of potential candidates we have been talking about this week.

*****Dues or Taxes*****

I do not like paying more for something unless I have a choice in the matter. That is why I so strongly support the voters' right to have sole ability to raise taxes or fees. Two votes were just taken that point out the differences between two labor unions on this issue.

The California Teachers Association leadership just proposed a political dues increase to fund their fight against the reforms of Governor Schwarzenegger. The increase is \$60 a year for each of their 335,000 members. It is mandatory on the teachers if they want to continue teaching unless the individual files a complicated waiver. The CTA executive committee is the body voting on this, and teachers are not being asked for their opinion. This is wrong.

The California Correctional Peace Officers Association leadership just proposed a political dues increase to fund their fight against the reforms of Governor Schwarzenegger. The increase is \$33 a year for each of their officers. It is mandatory on the officers if they want to continue to work in California's prisons unless the individual files a complicated waiver. The entire membership of 33,000 members is voting on this proposal. All members are being asked for their opinions. This is a much better approach than the CTA is taking.

*****Setting it Straight*****

Los Angeles Times columnist Michael Hiltzik leveled some criticism last week (<http://www.latimes.com/business/la-fi-golden6jun06,1,3603558,print.column?c>) at Sacramento Bee columnist Daniel Weintraub and anti-tax activists for our condemnation of the Democrats' proposed tax hikes. Recall that Weintraub recounted research (which I had requested from the Legislative Analysts Office) showing that the Wilson tax hikes did not bring in the new revenue that had been projected. Hiltzik said the "analysis doesn't go far enough...Neither Weintraub nor Cal-Tax mentions the *other* major state tax hike of postwar vintage — the Reagan hike of 1967.... Their amnesia about Reagan's increase is unsurprising: It destroys their argument about Wilson's. Tax revenue during the Reagan era rose at a record pace of more than 15% a year, pushing California's annual receipts from \$627 million to \$11.4 billion. The resulting unexpected surplus stoked the citizen discontent about taxes that drove Proposition 13 to victory in 1978."

With just a little more analysis and a lot less bias, Hiltzik would have uncovered the real truth about the Reagan tax hike. Governor Reagan did impose 10 and 11% tax brackets, but they are not comparable to Wilson's. According to California tax historian Dave Doerr, the differences were substantial. First, the 10% rate was imposed in 1967 and the 11% did not come into being until 1971. Second, those brackets were not the most important part of the Reagan tax package and probably not responsible for the cited new revenue. The new money that was realized from the 1967 changes did not come from the high income group, but from the across-the-board changes. In 1971 Reagan instituted withholding and the new revenue can be attributable to that. Third, when the 10-11% brackets were dropped by legislative consensus in 1987 it was done in exchange for better treatment of capital gains. When Reagan instituted those brackets, capital gains were capped at 50% whereas the rate under Wilson was 100%. The 1967 and 1971 bracket hikes may or may not have increased revenue, but we cannot assume, as Hiltzik does, that they are responsible for the increase in revenue because they were on a lower tax base than the Wilson hikes. As tax burden grows, as it had under Wilson, taxpayers change their behavior accordingly. That is the lesson for Democrats who want to raise the rates again, in an era when our overall tax burden is already crippling many.

MISCELLANY

*****A Good Read*****

You read in this newsletter analysis of last year's presidential election results that a new political demographic, the investor class, was the key to President Bush's victory. If indeed the investor class represents a nationwide political realignment, then we need to understand it. This week's recommendation is "Investor Politics: The New Force That Will Transform Business, Government & Politics" by John Hood, President of the John Locke Foundation. Hood discusses the growth of investment in light of the threat of terrorism and talks about the current Social Security debate. He looks at our current entitlement-based government programs and how they developed, for example how what

happened in health care in the 1940s paved the way for Medicare reform in the 1990s. Hood explains, “American’s entitlement state is an interlocked system of programs, dependencies, and public expectations that has been built up over decades of hard work by activists who believed passionately in large, 'helpful' government and were willing to accomplish their jobs incrementally.” I recommend “Investor Politics” to see the possibilities for changing our political culture and earning our way to individual wealth.

BOE AND LEGISLATIVE DATES

June 14, 2005 --- Flag Day.

June 15, 2005 --- Budget bill must be passed by midnight.

June 16, 2005 --- Tax seminar for Nonprofit and Tax Exempt Organizations in Bakersfield.

June 30-July 1, 2005 --- BoE meets in Sacramento.

July 4, 2005 --- Independence Day.

July 15, 2005 --- Legislature’s summer recess begins, provided the Budget bill has been enacted.

NOTABLE DATES/ HISTORY

June 13, 1777 --- The Marquis de Lafayette landed at Georgetown, SC, to fight for the colonists during the Revolutionary War.

June 13, 1966 --- The U.S. Supreme Court issued the historic Miranda decision, requiring suspects to be advised of their rights during arrest.

June 14, 1775 --- The U.S. Army was established by an act of Congress.

June 14, 1777 --- The Continental Congress, convened in Philadelphia, adopted the Stars and Stripes as the national flag, which is why we now celebrate Flag Day on June 14th.

June 14, 1846 --- U.S. settlers in Sonoma proclaimed the Republic of California.

June 14, 1954 --- U.S. president Dwight D. Eisenhower signed an order adding the words “under God” to the Pledge of Allegiance.

June 15, 1215 --- King John of England signed the Magna Charta granting his barons more liberty.

June 15, 1775 --- General George Washington was named Commander in Chief of the Continental Army.

June 16, 1858 --- Abraham Lincoln said, "A house divided against itself cannot stand."

June 17, 1775 --- The Battle of Bunker Hill occurred near Boston, during the Revolutionary War.

June 17, 1856 --- The first national convention of the Republican Party was held in Philadelphia, Pennsylvania.

June 17, 1856 --- Republican National Convention made John C. Fremont of California its first Republican presidential nominee, with slogan "Free soil, free labor, free speech, and Fremont."

June 17, 1885 --- The Statue of Liberty arrived in New York City.

June 17, 1972 --- The Democrat headquarters at the Watergate Hotel were burgled. I had already taken a leave from the Capitol staff of Congressman Jerry Pettis R-CA to tour Europe for the summer so my alibi was watertight.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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